

Audit's® NEWS ANALYSIS OF SECURITIES OF REAL ESTATE INVESTMENT TRUSTS

Realty Trust Review

April 9, 1976

VOL. VII, No. 7

INDUSTRY OUTLOOK AND INDIVIDUAL TRUST REVIEW ISSUE

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STATISTICAL PROFILE OF TRUSTS REVIEWED THIS ISSUE

Trust	Port. (Mil.\$)	--Debt Out-- Banks	Loss Other	Book Res.	Value	Price	Div.	Yield	Page
Cabot, CF	\$212M	\$110M	\$ 49M	\$29.1M	\$ 9.28	\$ 2.88	\$0.00	--	4
Federal Rlt.	23	1	15	0.0	9.31	12.50	1.24	9.9%	6
First Union	160	21	90	0.0	8.52	11.13	0.96	8.6	7
Hubbard REI	85	0	3	6.3	21.83	14.25	1.20	8.4	8
Property Cap.	70	30	18	0.6	13.67	9.63	1.20	12.5	5
TOTAL/AVG.	\$550M	\$162M	\$175M	\$36.0M	\$12.52		\$0.92	7.9%	

REIT BONDS: A STRATEGY TO DEAL WITH NEW BANK PRESSURE FOR BOND INTEREST CUTS

REIT bonds and shares continue to suffer under new outbreaks in the continuing war of nerves banks are pressing in a clear attempt to keep REIT investors -- especially holders of subordinate bonds and convertibles -- off balance. The reasons are quite clear: bankers are rapidly tiring of paying interest to public debt holders.

The stakes bulk fairly large to the banks. All REITs have about \$2.15 billion of non-bank senior and subordinated debt, with the interest bill running about \$150-\$170 million annually. Most of this debt has been issued by trusts whose portfolio problems are great enough to halt quarterly dividends. If interest payments are halted on this non-bank subordinate debt, then indenture trustees likely could declare defaults which could lead in time to bankruptcies. Hence the banks find themselves in the unpleasant position of having to pay interest at full contractual rates to subordinated debt holders, even though the banks are "senior" lenders technically. This is the reason behind the old investment rule that investors should always buy the lowest-seniority bonds when an entity's viability is in doubt.

With many banks cutting interest rates to 1%, 2% or so on about 55% of their REIT loans, one natural solution might be to ask debenture holders to accept cuts in their interest rates of 7%, 8% or so. But indentures for nearly all public debt are generally construed to say that 100% of holders must consent to any alteration in terms. And as a practical matter banks and REITs have said it was virtually impossible to get 100% approval from holders of an issue sold publicly. Hence banks have unwillingly assented to continued interest payments.

Now that willingness may be ending. Last week Alison Mortgage Investment Trust

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PUBLISHED TWICE MONTHLY ON THE SECOND AND FOURTH FRIDAYS/SUBSCRIPTIONS \$115 ANNUALLY / SINGLE COPY \$7 / BACK ISSUES \$1.25 TO SUBSCRIBERS ONLY
 GROUP RATES ON REQUEST

of Los Angeles signed a \$171.6 million credit agreement requiring the trust to ask holders of \$25 million of 8-3/4% senior subordinated notes to accept the same reduced interest rate as the banks. This new interest is a minimum of 1% or trust net income, whichever is higher, with contingent interest at 125% of the prime rate accrued and payable for eight to 10 years after the agreement's expiration in Oct. 1981. Alison's noteholders will also be asked to extend maturity from May 15, 1979 to at least the Oct. 31, 1981 maximum commitment period for the banks.

The bank demand to Alison breaks new and ominous ground for subordinated debt holders, focusing on these major questions:

--Can bond interest rates be altered? As noted by IDS Realty, prevailing opinion has been that any alteration of interest, maturity or other terms requires 100% approval by debt holders. But this may not be strictly true. Bond and note holders of New York City found that popular interpretations may not always be totally accurate when push comes to shove. Alison's indenture says, "no extension of the fixed maturity of principal or time of payment of interest, or reduction of principal or rate of interest...will be effective against any holder of Notes without his consent." A two-thirds majority is required to modify any term of the indenture.

This seems to mean simply that holders consenting to a reduced interest rate in effect wind up with a second class security. Thus it is possible, under this interpretation, that two classes of Alison note holders could be created -- those receiving 8-3/4% and those receiving the 1% minimum rate plus contingencies. We've checked several indenture summaries and all contain fairly similar language saying that none of the crucial terms of rate, maturity, etc. may be altered without the consent of the affected debt holder. Whether two-thirds consent is also required is unclear.

--What percentage of reduced-rate approvals would the banks accept? Here Alison's banks haven't committed themselves in advance of the vote. In such a vote, it's possible that anywhere from 0% to 100% of holders may consent to the revised terms; it's impossible to know how the banks will view these acceptances in advance of the vote. But several other REITs in recent months have sought other concessions on principal repayments from their debtholders and their experience tells a lot about what happens in such cases. First Mortgage Investors, for instance, exited from a very sticky position by first getting holders of a 9% senior note, with optional maturity Nov. 1, 1975, to agree, first, that failure to pay principal on maturity was not an act of default, and second, to accept a revised maturity of 25% on Nov. 1, 1975, the rest over three years. The first question became effective upon approval by two-thirds of the holders; over 90% of holders have accepted the revised maturity schedule. Interest was held at 9% for these holders, which represented an increase over a formula calling for a decline to 8½%.

Similarly Republic Mortgage Investors offered some holders an increased rate (including 4% to be accrued to a future date) if they waived an optional maturity on Dec. 1, 1975. This plan is now near final confirmation by its banks and about \$4½ million of debentures which failed to go along will get repaid anyway. Interest will be paid to about \$2.3 million to be outstanding. And National Mortgage Fund got all but \$489,000 of holders of \$5 million of its subordinated notes to accept a 10% principal bonus and continue 8½% interest if they waived an August 1975 maturity and let the notes expire in 1981 as scheduled. In each of these instances the banks have accepted near-unanimous approvals and permitted the trust to continue operating. Trading in FMI and National has been halted by the NYSE, while Republic continues to trade there.

Obviously a lot is riding on the upcoming Alison vote. And likely there will be no clear outcome when the votes are counted the first time. We will be commenting further when the proxy statement appears. But if New York City note and bond holders can learn to live with the actuality of moratoriums, then REIT debt holders likely will have to learn the same if Alison's banks can insist upon rate cuts for subordi-

nate debt holders.

Other things beside bank pressure for rate cuts can affect the payment of interest on public debt, and investors should be looking carefully at the exact credit status of trusts before making new commitments in public debt. Barnett Mortgage Trust, for instance, had to hold up the March 1 interest on two debenture issues while defaults were cleared up; the interest will be paid April 20 to holders of record April 5. LMI Investors intends to defer the April 15 interest payment on its 6-3/4% debentures because of its revolving credit agreement; LMI has a 30-day grace period and continues to negotiate a new agreement. LMI has \$25 million of the debt outstanding. NJB Prime Investors missed the April 1 payment on its 7% subordinated debentures and asked senior lenders for funds to pay. Lenders haven't replied; \$12.9 million of the debt is outstanding after a tender offer last fall. And Great American Mgmt. & Investment missed April 1 interest on its 7.55% and 8.75% subordinated and junior subordinate debentures but will pay April 29 to holders of record April 20. GAMI had completed a three-year agreement recently (RTR, Dec. 12, 1975).

There are several ways the investor can deal with these multiple uncertainties and take advantage of the higher yields afforded by depressed REIT bonds. Some suggestions:

1. Buy only a package, and then with funds you can afford to have tied up for some time in event of a trading halt, missed interest payment, or even a bankruptcy. Don't attempt to pick just one issue that will survive.
2. Avoid those REITs with over 50% nonearning investments for more safety. This is no certain rule but the eight trusts with recent debenture interest hangups average 75% nonearning investments. They obviously are among the first to feel bank pressure.
3. Avoid REITs with high percentages of subordinate debt in their capital structures. What's high? Alison's subordinate debt equals only 16% of senior bank debt. We'll be including comment on this important percentage in future issues of RELATIVE APPEAL RANKINGS.

New bank pressure on subordinate debt holders emphasizes the points made by your editor in a speech this week to the New York University Mortgage Conference. The speech is being reproduced and we'll offer copies when its ready; meantime here are some highlights:

--Land and land development loans account for 29% of a sample of \$3.9 billion of problem investments we tallied, up from 20% land found in two surveys last summer. This points toward a) continuing distress in land categories and b) swapping of standard income properties like apartments and office buildings to banks by the most troubled REITs. The REITs generally are swapping nonearning assets -- leaving the earning ones on hand -- but the best of these problem investments are being swapped.

--Major banks cut their loans to REITs by 9% to \$6.2 billion last year. They report 56% of their REIT loans are not accruing interest or earning at reduced rates. The \$625 million reduction of REIT loans last year came about 28% from asset swaps with REITs, 18% through writeoffs to bank reserves, and 54% from principal repayments, nearly all of which apparently came from recapture of compensating balances through restructuring of REIT loans.

--Banks have cut REIT interest by about \$350-\$400 million annually, and this has tended to cut the massive losses by REITs. Audit's tally of the 100 largest trusts shows they lost \$647 million in the first quarter of 1975, when banks were just beginning to cut interest. Losses fell to \$354 million and \$436 million the next two quarters and we estimate to about \$313 million in the fourth quarter of 1975. The first quarter of 1976 shapes up at about only \$150 million losses, with that rate to hold for the balance of the year.

--With the best problem investments apparently leaving first, the REITs likely will be left holding largely land in three to five years. Land holdings are extreme-

ly varied, running from prime building lots to plain dirt. This private land bank, probably the largest ever assembled, may in time be the trusts' best asset and the REITs operating mainly as developers or land packagers. But workout will take time -- and contingent interest payable to banks will limit profits through the mid-1980s for trust shareholders. Debenture holders may find their maturities shoved back a bit, and the interest cut in some instances.

NEWS NOTES: KUSMIERSKY PURCHASES OF KASSUBA APARTMENTS REPORTED FALLING APART

The purchase of \$285 million of apartments from the former empire of apartment developer Walter J. Kassuba by an investor group may be on the skids. The purchaser was an investment syndicate headed by Los Angeles real estate man John Kusmiersky. Now Cabot, Cabot & Forbes Land Trust reports it has had to take back Fairways Apartments in San Antonio from the Kusmiersky group, known as Little Stone Management Co. Steep rent raises there led to sharply higher vacancies. It is reported the Kusmiersky group has given back other apartments to other lenders.

The Kusmiersky deal was reported in trouble about a year ago, when Realty Income Trust was not able to complete sale of some of its Kassuba projects to the syndicate. That report proved overdrawn, however. Hardest hit by any breakup of the Kusmiersky group would most likely be ICM Realty, which is just winding up sales of several projects to the group. ICM shares have been weak recently, possibly in reaction to trade gossip over the new takebacks. ICM says it knows of no overall problems with the Kusmiersky syndicate.

CABOT, CABOT & FORBES LAND TRUST (2-7/8--NYSE-CFT) FY May 31

Portfolio: Funded investments of \$211.7 million at Feb. 29 were virtually unchanged in the past year, reflecting continued absence of new commitments and funding of existing ones. At Nov. 30, CFT had cut its unfunded commitments to \$7 million (excluding standbys), from \$29 million the year before. Nonearning investments of \$118.4 million at Feb. 29 were 56% of total holdings, reflecting virtually no change from the prior quarter. Included were \$54.4 million of real estate acquired via foreclosure, cancellation of land leases, or other remedies.

As a specialist in subordinated land purchase/leasebacks, CFT buys land beneath income producing properties and then leases it to the building owner who pays a ground rent. Since leasebacks generally run for 30 to 50 years, CFT's portfolio does not turn over as do short-term construction loan portfolios, and the trust must rely upon external funds for funding of commitments. About 68% of CFT investments are in completed properties; the remaining 32% is unimproved land which the trust financed in hopes of obtaining leasebacks on the completed properties. The land category has been especially hard hit and 95% is classed as nonearning; only 38% of the completed property portion isn't earning income. Thus about 54% of nonearning investments are undeveloped land, 46% in completed properties. Taking undeveloped land for its intended use, the portfolio is 21% office building; 17½% garden apartments; 9% high-rise apartments; 13% condominiums; 9% each in single family, shopping center/retail, and hotels/motels; 7% industrial; and 3% agricultural.

The Land Trust's success in developing its major land holdings will largely determine future profitability and recovery and here CFT is projecting 10 to 12 year workout times for some of its more remote recreational properties. Status of major nonearning unimproved land holdings are: 1) \$13 million of single family in the Santa Monica mountains north of Beverly Hills, on Benedict Canyon and Deep Canyon Roads, is selling well at wholesale to local builders; a recent contract calls for sale of 151 lots for \$8.4 million cash over three years and will reduce inventory there to 47 lots, from 385 lots initially; 2) \$4.6 million in an 80% participation in Broken Arrow, a large subdivision about 18 miles from Tulsa, hurt when original developer Evans & Mitchell Industries went bankrupt; CFT is seeking to foreclose and a court-appointed receiver is trying to sell the 750 lots left plus multifamily and commercial

sites; an 11-year workout is seen; 3) \$6.9 million participation in land on Sailboat Key in Miami, planned for less than 1,000 luxury condo units; the Miami city commission is hearing a CFT development plan May 6 that hopefully will forestall downzoning to limit buildings to 30-foot heights; 4) \$6.5 million in undeveloped waterfront land portions of Sandestin, an Evans & Mitchell project in Florida's panhandle; Chase Manhattan Trust owns completed golf courses and other amenities in the area and has hired an Atlanta firm to market recreational condo units; CFT sees a 12-year workout for its holdings; 5) a total \$8.2 million in land, golf course, inn and other amenities on St. Simons Island near Brunswick, Ga.; CFT has taken a deed in lieu of foreclosure and is working with another trust (GAMI) on a marketing program; 6) a \$3.1 million land loan on South Padre Island, near Brownsville, Texas, where Mexican residents are showing more interest in condo purchases. In addition the trust has taken back several completed apartments from land tenants, and has decided to hold one, 288-unit Cascade in Jacksonville, Fla. for investment; CFT has a \$1.1 million net investment over a \$3.1 million first mortgage. Unlike other land trusts, CFT is not booking prior mortgage debt on other acquired properties, thus showing only net investment as nonearning.

Financing: CFT's capital structure is fairly complex now but a pending debt restructuring should simplify it. The proposal calls for cutting the interest rate to a minimum 5% on a total \$113.6 million bank debt (\$71.6 million under short-term lines and \$38½ million in term loans due 1980 and 1981). The 8% interest rate on \$25 million of privately held senior notes due 1986 would be held but some paybacks would be made. So far banks haven't made any requests for rate cuts on \$25 million of 8½% senior subordinated notes due 1981. Major banks in the picture are Bankers Trust of N.Y., \$33½ million, and First National of Chicago, \$25½ million. The pending proposal would require CFT to pay contingent interest to May 1983 under a complex formula. CFT hopes to complete the agreement in a few weeks. In addition to the debt CFT is capitalized by \$26 million shareholder equity (\$8.71/sh.) and \$29.1 million allowance for possible losses. **Sponsor:** Cabot, Cabot & Forbes Co., private industrial and commercial developer of Boston.

Results & outlook: CFT lost \$0.95/sh. in the February quarter after \$0.50/sh. addition to loss reserves. The quarter and nine month loss of \$3.75/sh. reflect debt interest at full rates; it is possible there will be some retroactive reduction of undetermined amount when the credit pact is signed. Nonearning completed properties likely will return to earning status in the next two-four years while land holdings may take much longer. In view of new bank initiatives on subordinate interest, we'd avoid the 8½% debentures due 1981 (54¼ NYSE to yield 15%) until the credit pact is sealed. The shares are extremely long term workout speculations. (KDC)

PROPERTY CAPITAL TRUST (9-5/8--ASE-PCL) FY July 31

Portfolio: A specialist in land purchase/leasebacks, Property Capital's portfolio is virtually 100% in completed properties and nonearning loans are being reduced after peaking below 10%. Holdings of \$69.9 million at March 31, 1976 were 58% land leasebacks and 42% mortgages, which are 14% first mortgages, 11% wrap-around mortgages, and 17% second or subordinate loans. Holdings are 38% apartments, 25% office buildings/parks, 22% shopping center/retail, 12% hotels/motor inns, and 3% industrial. About 39% are in the Great Lakes area, 26% in the West, 16% in the Mid-Atlantic states.

Nonearning investments have been well controlled, with \$5 million, or 6.8%, in nonearning or low earning categories at March 31. Major nonearning investments are: 1) \$616,000 in 176-unit London apartments in Houston, still with protracted litigation pending; a sale contract by the owner has been pending for some time; 2) \$848,000 construction loan on 336-unit Briargate apartments in Columbia, S.C.; originated by troubled DeBoer Associates, property is a possible swap candidate with banks by a participating REIT; 3) \$1.8 million in 536-unit Ballena Bay apartments in Alameda, Cal., where a substitute general partner has filed Ch. XII; 4) \$1.1 million in Ardmore Apartments in Los Angeles, where the trust is seeking to collect on guarantees from Trammell Crow entities. A \$479,000 investment in Lakeview apartments, Fremont, Cal.

is partially earning. PCL wrote off its investment in a vacant Chicago industrial building in the January quarter, allocating \$450,000 from the loss reserve, and sold an ailing Chicago office building with a wrap-around mortgage to yield the trust about 10% on its \$773,000 net investment. PCL has \$12.3 million unfunded commitments, of which \$2.2 million remain in FY 1976 and \$6.3 million in FY 1977.

Financing: Total funds of \$76.4 million are 40% in short-term loans from banks, 24% in 6½% senior notes held privately, and 37% in shareholder equity. Bank credit availability of \$38 million is believed adequate for funding requirements, although it is possible some mortgage loans may be refinanced and the paybacks used to lighten up PCL's short-term debt load. Sponsor: Independent. Results & outlook: January quarter earnings of \$0.30/sh. were up 1-cent from earlier quarters and the dividend was increased. Management's ability to control a complex portfolio is outstanding. The biggest exposure is to rising short-term interest rates; a 1% prime rate rise would reduce earnings about 3½-cents/quar. While we doubt rates will rise significantly before the election, shares will carry this longer-term rate risk until bank debt is paid down. For this reason they have average attraction. (KDC)

FEDERAL REALTY INVESTMENT TRUST (12 3/4--ASE-FRT) FY Dec. 31

Portfolio: Depreciated value of this equity trust's holdings declined 12% during 1975 to \$23.4 million resulting from minor dispositions of a 17% interest in a shopping center and a leasehold interest in an office building and department store. Recently, two of the oldest, smallest properties were sold, an apartment complex and a shopping center. Centered around the Washington, D.C. area, holdings by revenue derivation were two-thirds apartments, one-third shopping centers coming from six apartment projects and nine shopping centers. Cash flow derivation, however, was virtually the reverse: 39% apartments and 61% shopping centers. Portfolio growth from here will seek shopping centers outside the Washington, D.C. area, probably mostly in the southwest. Management is looking for centers from 150,000 sf up to regional malls. Its shopping center philosophy remains neighborhood oriented, anchored around large food stores. The trust further strives for centers whose end products are consumable: food, services and soft goods. These provide steady, recession resistant growth. If relatively large centers become available, Federal is prepared to joint venture ownership with other equity trusts. Operationally, another good year was had with cash flow up 15% to \$1.22 million in 1975. Shopping center cash flow was up 13% and apartments 16%. Vacancies, already low, were down even further from the year before, barely 2% for apartments and less than 1% for the shopping centers. There is some concern among investors over rent control becoming a problem for apartment owners but this has not been troublesome. There were rent controls in the state of Maryland where most of the trust's apartments are, but controls have been lifted. Montgomery County is also phasing out. Landlord/tenant relationships have stayed relatively good because Federal, along with other big owners, has restrained rent increases to essentially offset higher costs. Thus, overall margins held up well in 1975 vs. 1974. Good progress is being made in replacing space at two shopping centers vacated by bankrupt Grant. A 67,200 store in the Southgate Mall in Elizabeth, N.C. was leased to Rose's Stores in January and occupied in March. The higher rental will increase Federal's 1976 earnings \$0.05/share. The space at Westfalls Shopping Center, Falls Church, Va., was temporarily leased at \$1,500/month for six months after which this 18,000 sf will be subdivided out for \$60-72,000 annually vs. the \$30,000 Grant was paying.

Sponsor: The trust is internally administered. Properties are managed by Investor Service Mgmt., independent firm set up for that purpose. Finances: Fundings are 31% equity, 69% debt of which 94% are secured mortgages. The \$4.3 million credit line was paid down to \$972,000. If the trust is to reach its goal of increasing holdings 28% this year to \$30 million, more funds will be needed. Exercise of the

remaining 180,000 warrants at \$10/share will add \$1.8 million to the \$400,000 recently obtained from warrants. Other equity financing is being explored.

Results & outlook: Earnings in 1975 rose 14% per share to \$1.31 although fourth quarter net dipped 18% from a year earlier to \$0.28/share. Heavy maintenance and revamping expenses were pushed into this quarter. Higher results are expected in 1976. The shares offer a solid 10% return plus growth in a trust that will always be small and conservatively oriented but could still go to \$50 million portfolio in three years. Management appears flexible in meeting new property purchase patterns and if necessary, will buy free and clear to avoid reverse leverage. Shares are No. 1 ranked. The warrants are another way to play the shares (about the only viable trust warrants). They should be considered as an eight month call, expiring at the end of 1976. (BS)

FIRST UNION REAL ESTATE INVESTMENTS (11½--NYSE-FUR) FY Oct. 31

Portfolio: This old time equity oriented trust boosted its depreciated portfolio value 6% over the last twelve months to \$160 million. Best known for landmark office buildings in some large cities, assets were last allocated 70% office buildings, 25% shopping centers and 5% hotels/motor inns. Cash flow derivation broke down 60% office buildings, 32% shopping centers and 8% hotels. Although the trust's major category of expansion is shopping centers, the biggest new chunk was the \$6 million Union Commerce Garage. This complements a package as the trust owns the Union Commerce building. The further rationale was the garage is centrally located in downtown Cleveland, an area inhabited by the city's top lawyers and executives who will drive to work no matter how expensive auto travel becomes relative to mass transit. Rents were already raised by the trust and occupancy efficiencies are expected. Looking out at intended portfolio growth in coming months, change in size will depend on what deals can be made while the underlying shift will remain conversion of some loans to equity. This will entail \$3.5 million in the St. Cloud, Minn. shopping center and \$3 million in the Abilene, Texas center. First Union is going after a niche in shopping centers where it can apply its capabilities and achieve leverage for itself. It has been investing in centers a few years older which can be upgraded. This encompasses redesign and expansion. Many properties are being examined and many retailers are being worked with. Slow progress is being made on low earning (mostly 2-3%) investments. These totalled about \$7 million, exclusive of underlying mortgages whose interest is covered, 4% of the portfolio. At the Shreveport Plaza, K-Mart is still expected to move in sometime this fall and to sign a lease shortly. At the Bay Center, Texas City, the trust's manager plans to put in an ice cream parlor which would also be managed by the management company for economy. At Mall 205, Portland, Ore., the big space left by White Front's bankruptcy is not leased. Temporarily, option leasing is being offered. An anchor tenant or joint venturer is being sought. Commerce Plaza, Santa Clara, Cal. office building, is little changed this year after occupancy was improved via small tenants coming in during late 1975 to bring return over 6%.

Sponsor: Self administered. Management company owned by shareholders leases some trust properties and manages. Finances: Fundings are 31% capital, 69% unconvertible debt. Capital of \$51.3 million is 67% equity, 33% converts. Debt of \$111.5 million is 72% secured mortgages, 7% bank credits, 12% bank notes and 9% commercial paper. Given the largely equity and long-term nature of assets, the trust desires to lengthen its debt. Most preferable would be secured mortgages, especially if such rates drop to 8½%.

Results & outlook: First quarter, January, earnings rose modestly. This trend may be maintained over the rest of fiscal 1976. Hoped for margin improvement is slow in coming but the basis for gradual improvement over the next two years exists. The 8.3% yield, relatively modest for equity trust shares, reflects the high market regard for these No. 2 ranked shares. They should be held for fairly secure income deriving from a sound portfolio that is slowly improving further. The 7% convertibles due 1991 (86-NYSE) trade with no conversion premium to yield 8.1% and are

an excellent alternative to the shares.

(BS)

HUBBARD REAL ESTATE INVESTMENTS (15--NYSE-HRE) FY Oct. 31

Portfolio: Holdings of this net leased equity trust were up 6% over the last twelve months to \$85 million. The main addition was \$3.7 million for an office building in a Houston, Texas office park. This was Hubbard's first transaction outside the net lease format to a major corporation in an effort to grow under changing conditions. Further growth, however, is being given second priority since primary attention lies with re-leasing the remaining eight stores vacated by bankrupt Grant. The portfolio at yearend 1975 was net leased to the following majors: 20% each to Safeway Stores, Ashland Oil, Chrysler Corp., 5% to Carter Hawley Hale Stores and 2% to Alpha Beta. Subsequently, leases were added with Firestone Tire and Kresge for three former Grant properties. The trust now holds eight former Grant stores which are still vacant. These contain 966,000 sf of space and were carried on Hubbard's books at depreciated value of \$17.3 million, 20% of the portfolio's value. Serious interest is being shown in four of the eight stores and the trust is talking about the other four. The trust reserved \$6.5 million for the vacant space in fiscal 1975 and assumed it could take up to three years to re-lease the space. In March, the first re-renting was announced, encompassing \$7.5 million or 30% of the value of former Grant properties. While poorer properties will take longer, there is basis to presume the \$6.5 million reserve may be at least adequate. The new leases took effect March 1 for the large Firestone lease, April 1 for one K-Mart lease with the second K-Mart becoming effective June 1.

Sponsor: Adviser is Merrill Lynch, Hubbard, subsidiary of Merrill Lynch, et al, largest stock brokerage firm. A separate company was just formed to manage the Grant re-leasing as the trust cannot and still retain its trust tax status. Currently entailing property management and leasing, it could extend to development to revamp some former properties. Finances: Fundings are 97% equity and 3% secured mortgages. No change is likely with the portfolio static.

Results & outlook: First quarter (January) net declined 14% to \$0.37/sh. from impact of Grant's vacancies. As it was, the first quarter still contained \$580,000 (or \$0.15/sh.) from Grant properties which will be substantially absent from subsequent quarters. Also, the benefit from new leases on former Grant space will not begin until part way through the second and third quarters. Thus the full rate will not pertain until the fourth quarter. Ultimate recovery of earning power depends on timing and rental rates for re-leasing Grant space. These can not be gauged. Experience with the first three leases was constructive. Probably the better properties, rentals averaged higher but with deals structured differently. Net leases are no longer being made and higher rentals are being offset in part by the trust assuming maintenance and repair. For timing, Hubbard assumed up to three years when setting up its reserve including carrying costs. The No. 4 ranked shares seem adequately priced for now as earnings and hence dividends will be under pressure another few quarters. Moreover, yield is no longer relatively generous since the shares' price runup. (BS)

NEWS NOTES: THREE BANKS WITHDRAW DEMAND FOR REPAYMENT OF IDS REALTY DEBT

Three banks have withdrawn demands that IDS Realty Trust repay \$30 of its \$128 million bank debt immediately. The three banks are First National of St. Paul, Bank of Montreal, and Crocker National of Los Angeles. They had demanded repayment as part of negotiations over a new credit agreement at IDS Realty. The IDS situation is complicated by presence of \$176 million subordinated debt (i.e., \$1.38 of subordinate debt for each \$1 of bank senior debt). The IDS debt requires annual interest payments of about \$13 million plus about another \$13 million of quarterly payments into a mandatory retirement fund; subordinate debt holders may present their bonds to the fund for redemption. The bank and trust now agree to ask debenture holders to waive this mandatory redemption fund feature and receive no more early-maturities.